

TOP SECRET
SECURITY INFORMATION

CENTRAL INTELLIGENCE AGENCY

3 March 1953

SE-37: PROBABLE EFFECTS ON THE SOVIET BLOC OF CERTAIN COURSES
OF ACTION DIRECTED AT THE INTERNAL AND EXTERNAL
COMMERCE OF COMMUNIST CHINA

THE PROBLEM

1. To examine the current status and effectiveness of controls on trade with Communist China.
2. To examine the short and long term effects on the capabilities of the Chinese Communist regime of: (a) a complete embargo; (b) a naval blockade, alone or combined with bombardment of transportation facilities in Communist China; and (c) a Chinese Nationalist effort at blockade and aerial bombardment.
3. To estimate Communist reactions to these measures.
4. This estimate does not consider whether the UN would cooperate in these measures, or what the reaction of other non-Communist powers would be if the US adopted these measures unilaterally.
5. This estimate does not consider the probable consequences of substantially intensified US or US/UN military operations in

TOP SECRET

TOP SECRET

Korea or Communist China undertaken in conjunction with some or all of these courses of action.

ASSUMPTION

A continuation of the present situation in Korea.

CONCLUSIONS

1. Present controls on trade with Communist China have not prevented the build-up of Chinese Communist military strength. Moreover, Communist China's industrial and internal transportation systems have continued to expand since 1950.

2. A total embargo on non-Communist trade with Communist China would probably have no significant effect on Chinese Communist capabilities to sustain military operations in Korea or to undertake military operations elsewhere, but would somewhat retard the expansion of Chinese Communist industry. An embargo would make Communist China economically more dependent on the USSR. An embargo would probably not induce the Communists to embark on new aggression, but would probably lead them to intensify political warfare.

3. A naval blockade of Communist China would increase

* A naval blockade of Communist China would not cut off seaborne trade unless it included Port Arthur and Dairen and unless trade with mainland China through Hong Kong and Macau were prevented.

TOP SECRET

TOP SECRET

the difficulty of military operations requiring large expenditures of materiel, either in Korea or elsewhere, but the blockade in itself would probably not induce the Communists to accept a Korean settlement on UN terms. [The present estimated maximum capacity of the inland transportation facilities serving Communist China is probably adequate to carry essential tonnage now seaborne plus the essential traffic now carried by land. However, a blockade would create serious problems. For instance, railroads do not serve all parts of Communist China now served by coastal shipping.] A blockade would make Communist China economically more dependent on the USSR and would retard the expansion of Chinese Communist industry to a greater extent than an embargo. The net political effect within Communist China would probably not be significant.

4. In reaction to a naval blockade, the Chinese Communists would almost certainly attack the blockading forces with covert Soviet assistance. The USSR would probably test the blockade, possibly with the armed escort of merchant ships, but would be unlikely to regard incidents thus created as a casus belli. The Chinese Communists might launch new acts of aggression, such as the seizure of Hong Kong and Macau.

* Possible ONI reservation.

- 3 -

TOP SECRET

TOP SECRET

5. Effective and sustained air and naval bombardment of key Chinese Communist transportation lines, in conjunction with a naval blockade, would sharply reduce Chinese Communist military capabilities, but would probably not in itself induce the Communists to accept a Korean settlement on UN terms. Communist China's economic potential would be seriously affected, and the problems of the regime in maintaining political control would be increased.

6. In reaction to a blockade and bombardment, the Chinese Communists would make a maximum air defense effort in China and Manchuria. Units of the Soviet Air Force in the Far East would covertly participate in the air defense effort, particularly in Manchuria. The Chinese Communists would probably also employ their air capability against some US/UN bases in the Far East. If the blockade and bombardment should threaten the existence of the Communist Chinese regime, the USSR would increase its aid to Communist China, probably even to the point of openly committing Soviet forces against US forces over US/UN held territory and adjacent waters in the Far East.

7. Blockade and bombardment by the Chinese Nationalists alone would, under present circumstances, have negligible effects. In reaction to a Chinese Nationalist blockade and bombardment,

* Possible OIR reservation on additional sentence

TOP SECRET

the Chinese Communists would almost certainly attack the
blockading and bombarding forces and might retaliate by air
against Nationalist-held territory.

- 4a -

TOP SECRET

TOP SECRET
SECURITY INFORMATION

3 March 1953

DISCUSSION

EXTENT OF PRESENT CONTROLS ON TRADE WITH COMMUNIST CHINA

10. Most of the nations outside the Soviet bloc apply some form of export controls over trade with Communist China. The US has maintained a total trade and shipping embargo against Communist China, as well as controls over the dollar assets of Communist China, since December 1950. Canada, Japan, Nationalist China, and the Philippines have imposed trade restrictions almost as severe, while Costa Rica, Honduras, Liberia, and Panama have imposed strict controls over the movement of their vessels to Communist China. The UK has embargoed or restricted the export of a wide variety of strategic items including natural rubber. In July 1950, the Western European countries which are members of the Coordinating Committee (COCOM)^{1/} on East-West trade applied to Communist China the selective controls earlier put into effect against the rest of the Soviet Bloc. After Communist China was declared an aggressor by the UN, these countries instituted controls over trade with Communist China more severe than the controls over trade with the

^{1/} Participants in the COCOM include Belgium, Denmark, France, West Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, and Portugal as well as the US, the UK, and Canada.

TOP SECRET

rest of the Bloc. At the present time, the COCOM countries embargo to Communist China all items included on the three International Lists plus some 16 additional items of particular strategic significance to Communist China. A China Committee (CHINCOM) parallel to COCOM was set up in the fall of 1952 for the purpose of working out international export controls to be applied in the Far East. A great number of other nations have also taken action to restrict strategic shipments to Communist China in accordance with the UN Additional Measures Resolution of May 1951. The Battle Act, enacted in the fall of 1951, has served to reinforce the COCOM and UN embargo by making the continuation of US assistance conditional upon the recipient country's cooperation in supplying controls over strategic shipments to the Soviet Bloc, including Communist China.

11. There has been a wide variation, however, in the contraband lists and enforcement measures used by individual countries. Although the controls imposed by the UK and the continental COCOM countries are fairly comprehensive, they fall short of the total embargo imposed by the US. Other nations, which are largely non-industrialized and do not produce strategic equipment, have shown little uniformity in their interpretation of the UN Resolution, which covers transportation materials of strategic value and items useful in the production of military materiel as well as petroleum

and purely military items. A number of Middle Eastern and South-east Asian countries have made a general commitment to deny strategic items to the Chinese Communists, while India, Pakistan, and Burma have not been willing to go on record as supporting the UN Resolution although they have been cooperating informally in preventing re-export of strategic items to the Chinese Communists. Ceylon, which is not a member of the UN, has refused to comply with the UN Resolution so far as shipments of rubber to Communist China are concerned.

12. Shipping controls have been particularly weak. The COCOM countries prohibit the sale of ships to Communist China and impose restrictions on the sale of merchant ships to the rest of the Bloc. Since October 1950 at least 33 vessels have been transferred to Soviet bloc flags. However, COCOM restrictions on sales were tightened somewhat in December 1951. The US alone has imposed comprehensive formal controls on ship sales, repairs, and bunkering, and British oil companies have adopted informal controls over the bunkering of vessels engaged in trade with Communist China. Only the US, Costa Rica, Honduras, and Panama prohibit vessels of their registry from entering Chinese ports, although Liberia prohibits vessels of its registry from carrying strategic cargo to Communist China. Present COCOM controls do not prohibit the chartering of

TOP SECRET

merchant vessels other than tankers to the Soviet Bloc. Although the greater percentage by far of chartered vessels do not touch Chinese Communist ports, these vessels are used by the Soviet Bloc in Western European, South Atlantic and Indian Ocean trade and make possible the release of Communist flag vessels for direct service to Communist China.

THE EFFECT OF PRESENT CONTROLS ON COMMUNIST CHINA

Effect on Foreign Trade

13. Imports from non-Soviet Bloc Countries. The value of the goods imported from non-Communist countries by Communist China rose to a peak in the first half of 1951 but then dropped sharply during the second half of 1951, when trade controls became more stringent, and have remained at a relatively low level through 1952. These imports are estimated at \$382 million in the first half of 1951, ^{1/} \$148 million in the second half of 1951, and \$135 million and \$155 million respectively in the first and second halves of 1952. The volume of imports from non-Communist countries fell from 746,000 tons in the first half of 1951 to 242,000 tons in the second half of 1951, and then rose to 270,000 tons in the first half of 1952 and 330,000 tons in the second half of 1952.

25X1X7

25X1X7 ^{1/} The figures in this paragraph are based on an [REDACTED] study of Communist Chinese imports during 1951 and the first half of 1952, and preliminary US estimates for the last half of 1952. ONI now feels that the volume of clandestine trade through Hong Kong may be larger than the figure agreed upon and included in these calculations, but it is impossible to arrive at a new estimate at this time.

TOP SECRET

14. The rise in tonnage reflects the increased import of such bulky commodities as ammonium sulphate and chemicals for heavy industry. A decline occurred in the imports of goods on which most non-Communist countries have imposed control, notably metals and machinery, and crude rubber. (Crude rubber imports have continued to come principally from Ceylon.) During the 18 months ending December 1952, raw cotton accounted for one-quarter, and crude rubber, pharmaceuticals, fertilizers, dyestuffs, and heavy industrial chemicals for one-half of Communist China's imports from non-Communist countries. Except for the decline in imports of metal and machinery from \$125 million in 1950 to \$14 million in 1952, the level and pattern of imports in 1950 and 1952 were roughly the same.

15. Exports to non-Soviet Bloc Countries. Foreign exchange earnings from exports to non-Communist countries have declined steadily since their peak in the last half of 1950. These exports are estimated at \$400 million in 1950, \$335 million in 1951, and \$270 million in 1952. The volume of exports to non-Communist countries in 1952 is roughly estimated at 1.7 million tons (2.4 million tons in 1951), consisting largely of low-value bulky items such as coarse grains and soy beans. With the loss of markets for specialized items such as tung oil, bristles, egg products, and handicrafts, Communist China's exports to non-Communist countries

TOP SECRET

TOP SECRET

have increasingly been limited to foodstuffs for Hong Kong and Malaya and grains and oilseeds for South Asia and Western Europe.

16. Imports from Soviet Bloc Countries. On the basis of Chinese Communist data which are generally consistent with other information, imports from the Soviet Bloc rose from \$100 million in 1950 to nearly \$1 billion in 1951. Chinese Communist data also indicate imports in 1952 remained at roughly the same level as in 1951. Imports in both 1951 and 1952 consisted largely of military equipment and of commodities unavailable from non-Communist countries, notably petroleum, vehicles, machinery, metals, and metal manufactures. However, there were some imports from the Bloc of items currently being imported from the West, such as drugs, fertilizers, chemicals, and sugar.

17. Soviet Bloc shipments to Communist China by sea are estimated at 700,000 tons in 1952^{1/} as against 350,000 tons in 1951. On the basis of partial cargo data, it is estimated that roughly one-fifth of this tonnage in 1952 consisted of petroleum products and two-fifths of metals and machinery. The value of seaborne imports from the Soviet Bloc is estimated at approximately \$200 million.

18. Overland imports from the Soviet Bloc are roughly estimated at \$800 million for 1952. The total volume of overland imports

^{1/} Exclusive of approximately 50,000 tons of cargo picked up by Bloc vessels in non-Communist countries and shipped to Communist China. This cargo has been counted in Communist China's imports from non-Communist countries.

TOP SECRET

during 1952 is estimated to be 3.4 million tons. Military equipment and POL accounted for a large part of these overland shipments; in addition, there were substantial commercial imports of machinery, metals, and motor vehicles.

19. Exports to the Soviet Bloc. It is estimated that Chinese Communist exports to the Soviet Bloc were \$175 million in 1950 and \$350 million in 1951. These exports are believed to have risen sharply in 1952 and are very roughly estimated at \$500 million. It is believed that the Chinese Communists are attempting to increase these exports still further in 1953, apparently in an effort to reduce the trade deficit with the Soviet Bloc. Seaborne exports to the Bloc during 1952 are estimated roughly at 800,000 tons and apparently consisted largely of grain, soy beans, and ores. On the basis of partial evidence, we estimate the volume of overland exports to the Soviet Bloc during 1952 at three million tons.

20. Over-All Effects. Present trade controls appear to have been an important factor in the sharp change that has occurred in Communist China's foreign trade. In 1950, only one-fourth of Communist Chinese foreign trade was with the Soviet Bloc while three-fourths was with the West; in 1952, these proportions were almost reversed. However, other factors would have tended to increase Soviet

- 11 -

TOP SECRET

TOP SECRET

Bloc exports to Communist China even if Western trade controls had not existed. These factors are: (a) movement of Soviet military supplies in support of the Communist war effort in Korea; (b) shipment of non-military items to Communist China in fulfillment of Soviet commitments in the Sino-Soviet agreements of 1950 to provide economic assistance; and (c) the avowed policy of the Communist Bloc to achieve economic self-sufficiency.

ECONOMIC EFFECTS

21. Industrial Effects. The restriction of imports into Communist China as a result of present controls has not curtailed industrial output. In fact, because of the greatly increased level of commercial imports from the Soviet Bloc and the more effective use of available equipment and stocks in Communist China, industrial output has continued to expand. However, this expansion would probably have been greater if the present trade controls were not in effect.

22. Effect on the Railroads. The railroad transportation system of Communist China, while not expanding to the extent it would have without present Western controls, has steadily improved in capacity and performance. Control measures have stopped imports from the West of locomotives, freight cars, parts for rolling stock, and rails.

TOP SECRET

TOP SECRET

However, the Soviet Bloc has supplied limited quantities of these items which together with local production has permitted the maintenance of existing equipment and continued expansion of the rail network, despite the losses in Korea.

23. Effect on Other Internal Transportation. The expansion of motor freight movements which has occurred in Communist China during 1952 has been made possible largely by imports of Soviet trucks and petroleum. However, the traffic in smuggling of parts for motor vehicles continues to be considerable, indicating that Soviet Bloc assistance has not kept pace with expanding Chinese Communist requirements and that Western controls are imposing some cost on Communist China in this regard. Coastal shipping has not been appreciably affected by Western controls since most non-Communist countries permit their flag vessels to operate in the Chinese Communist coastal trade. Moreover, during the last year the Chinese Communist demand for foreign coastal shipping seems to have slackened, and it is possible that an increasing part of Chinese Communist requirements for river and coastal shipping capacity is being met by their own fleet.

24. Over-All Economic Effects. Despite the curtailment of trade with the West, during the last two years, the Chinese Communist regime has made rapid progress in economic reconstruction,

TOP SECRET

TOP SECRET

particularly in the restoration and expansion of its industrial capacity. However, the reduction in Communist China's net receipts from foreign trade must be viewed as a deduction from the resources that otherwise would have been available to the government for investment. Without Western trade restrictions, Communist China's economic progress probably would have been greater than it actually was, and it certainly could have been accomplished at less cost to the Soviet Bloc.

MILITARY EFFECTS

25. Ground Forces. Although Western trade controls have made it difficult for the Communists to acquire certain important items such as antibiotics and other medical supplies, communications equipment, and rubber products, the Chinese Communist Ground Forces have not been adversely affected by Western trade controls. Communist China produces only a part of its own light ground force equipment and supplies. The materials required for China's munitions industry are relatively small in tonnage and are for the most part produced domestically. The only important import requirements are for copper and zinc, which are supplied in adequate quantities for the most essential uses by the USSR. In addition, the USSR is providing most of the heavy military equipment, virtually all POL, and a large share of the light equipment and supplies used in Korea.

TOP SECRET

TOP SECRET

26. Air Force. Since the USSR provides Communist China with virtually all aviation equipment and supplies including avgas and jet fuel, present Western controls on strategic materials have not affected the capabilities of the Chinese Communist Air Force. The Air Force has continued to expand in aircraft strength and capabilities throughout the period of present Western controls.

27. Navy. Since a large part of the Chinese Communist Navy is composed of former foreign naval vessels, present Western controls on strategic materials have almost certainly hindered the Chinese Communists in their efforts to put back into service and maintain their naval vessels. As far as is known, the USSR has supplied at most only a few small warships to the Chinese Communists, forcing them to rely almost entirely on those ships taken over from the Nationalists.

INTERNAL POLITICAL EFFECTS

28. Western trade restrictions have not appreciably affected the Chinese Communist regime's ability to consolidate its political position. In fact, the restrictions have been cited by the Communists in domestic propaganda as an additional indication of the implacable hostility of the West, and thus have provided the Chinese Communists with a pretext for applying further stringent political controls.

TOP SECRET

PROBABLE EFFECT OF A TOTAL EMBARGO ON NON-COMMUNIST TRADE WITH
COMMUNIST CHINA ON THE CHINESE COMMUNIST ECONOMIC AND POLITICAL
STRENGTH, AND ITS MILITARY CAPABILITIES

29. Introductory Note. The imposition of a total embargo by the entire non-Communist world would presumably extend to both trade and shipping. The implementation of such an embargo would presumably include measures to prevent the transfer or charter of non-Communist shipping for the Communist China trade, the denial of bunkering and servicing, and repair in non-Communist ports of ships bound for and returning from, Chinese Communist ports, and the transshipment of non-Communist goods directly or indirectly to Communist China from other countries in the Soviet Bloc. The following factors would prevent effective enforcement of a complete embargo:

(a) Although transshipment might be controlled to a limited extent by placing quantitative controls on goods exported from the West to Eastern Europe and the USSR, effective prevention of transshipment would be impossible so long as trade controls applied against these countries are less rigid than those applied against Communist China. Such transshipment could only be stopped completely, and Communist China denied all non-Communist commodities if trade with the entire Bloc were embargoed.

(b) As indicated in section I, several countries are not now cooperating with the limited embargo declared by the

TOP SECRET
SECURITY INFORMATION

UN, and most Western nations are now strongly opposed to further extension of trade and shipping controls against the Soviet Bloc and Communist China. Even should the UN recommend a full embargo on trade with Communist China, it is probable that various Asian and Middle Eastern nations would not cooperate because of their "neutralist" foreign policies and the economic importance of trade with Communist China.

SHORT-RUN EFFECTS

30. Effect on Trade. The direct impact on imports of a total embargo would depend on the extent to which the Soviet Bloc was able and willing to: (a) make up for the loss of Western shipping (including that now chartered by the Communists) now serving the China trade; and (b) supply the specific commodities denied by the West.

31. In view of the incomplete data on Communist China's foreign trade and on the Soviet Bloc's capabilities, it is impossible to estimate with precision the impact of a total embargo on Communist China. The following projection is based on the estimated level of trade during 1952:

(a). Assuming a continuation of present controls, it is estimated that the total value of Communist

TOP SECRET

China's legitimate imports from the non-Communist world in 1953 will remain at the 1952 levels, \$260 million. As compared with 1952, however, imports are expected to include a higher proportion of heavy bulk goods, particularly chemical fertilizer. As a result of these changes in composition, the volume of Communist China's legitimate imports from the non-Communist world in 1953 is projected at 660,000 tons as compared with 560,000 tons in 1952. ^{1/}

(b) Exports to the West from Communist China are expected to be the same as in 1952, or 1.7 million tons valued at \$270 million.

(c) It is unlikely that the present rate of smuggling could be increased significantly inasmuch as a complete embargo would necessarily involve a general strengthening of controls. Clandestine imports would tend increasingly to consist of items of small bulk and high value, such as drugs and motor vehicle parts, but the total volume may be assumed

- ^{1/} (1) Raw cotton imports are expected to decline in value from \$103 million to \$50 million and in volume from 86,000 tons to 50,000 tons. World prices are lower and production in Communist China is increasing.
- (2) Imports of rubber are estimated to increase from \$22 million to \$45 million, or the level called for in the Ceylon-Communist China barter agreement.
- (3) Imports of fertilizer are estimated to increase by 50 percent in volume and value in view of Chinese Communist efforts to increase production of industrial crops.

TOP SECRET

TOP SECRET

to be about 40,000 tons, the level projected for 1953
under the assumption of existing controls.^{1/}

On the basis of the above projections, the theoretical annual loss to Communist China as a result of a complete embargo would be 660,000 tons of imports valued at \$260 million and the earnings from 1.7 million tons of exports valued at \$270 million.

32. The Soviet Bloc could assume the entire burden imposed by an embargo and supply to Communist China all of the commodities it otherwise would have received from the West. Such commodities are available in the Bloc and transport facilities would not impose an absolute limit on their shipment. However, the degree to which the Soviet Bloc would compensate for the loss of imports from the West would depend in general on the Soviet appraisal of the relative advantages of using these resources in Communist China as opposed to using them elsewhere in the Soviet Bloc, including the USSR itself.

(a) The Soviet Union has a strong interest in maintaining Chinese Communist strength and for this reason would probably assign a high priority to those Chinese Communist import requirements that have a significant effect on Chinese Communist military capabilities.

1/ See paragraph 13.

TOP SECRET

TOP SECRET

Much lower priorities would be assigned to supplying the remaining commodities Communist China formerly imported from the West. It is probable, therefore, that such commodities would be supplied only to the degree that the burden thus imposed on the rest of the Soviet Orbit would be relatively small. On the basis of these considerations, it is roughly estimated that the Bloc would supply virtually all the iron and steel, machinery and metals, and drugs; most of the heavy industrial chemicals, dyes, and paper; and only part of the crude rubber, chemical fertilizer, and other miscellaneous commodities. The Soviet Bloc would probably not compensate for any of the raw cotton, gunny bags, and some miscellaneous commodities. We estimate, therefore, that in making up the imports lost through imposition of an embargo, the Soviet Bloc would probably increase its annual exports to Communist China by about 350,000 tons valued at \$130 million, reducing the net import loss to about 300,000 tons.

(b) If these additional imports from the Bloc were carried by sea, total seaborne imports from the Bloc in Bloc vessels would amount to approximately 1,050,000 tons in 1953.

Controls on bunkering and other services to ships engaged in trade with Communist China would reduce the cargo-carrying capacity of

TOP SECRET

the Soviet Bloc merchant fleet and would require the Soviet Bloc to transport additional fuel to the Far East, either over the Trans-Siberian Railroad or by tankers presently carrying essential POL.^{1/}

33. An embargo would also result in an increase in the value of Communist China's exports to the Soviet Bloc but a decrease in the value of its total exports. Because of the increased transport costs involved and the nature of the commodities, it is probable that it would not be worthwhile for the Communists to divert to the European Soviet Bloc a large part of the 1.7 million tons of commodities that Communist China now exports to the West. However, Communist China plans to increase its production of strategic minerals with which to pay for its imports from the Soviet Bloc, and other exports from Communist China could be increased so that there would be little or no net effect on Communist China's debtor position in the Bloc.

34. On the basis of the above highly speculative estimates, an embargo would reduce the volume of Communist China's total imports in 1953 by 300,000 tons and the value by \$130 million. This would represent a reduction of approximately 10 percent in the value of Communist China's total imports and perhaps as much as 20 percent

^{1/} The Soviet Bloc has the ship capacity to carry the total seaborne imports to Communist China, even without chartering Western vessels. However, under these circumstances the USSR would have to use some lend-lease vessels in this trade, thus risking their seizure by the US. In addition, the Soviet Bloc would have to find alternative and more costly means for carrying on its trade with the West.

TOP SECRET

TOP SECRET
SECURITY INFORMATION

of non-military imports. It is evident, therefore, that imposition of a complete embargo on Western imports would not effect a major reduction in the present total volume of imports. Communist China's total exports would be reduced by \$130 million, or by more than 15 percent. The proportionate reduction in the volume of exports would be greater.

35. A total embargo on non-Communist trade with Communist China would not affect the flow of purely military items and petroleum, all of which (except for limited quantities brought in by smuggling) now come from the Soviet Bloc. Military considerations would almost certainly determine the relative priority of compensating shipments from the Soviet Bloc and, consequently, goods related to military operations would probably be least affected by a complete embargo.

36. Economic Effects. The Chinese Communist economy has already made considerable progress in adjusting to decreased availability of western goods. The main effect on the Chinese Communist economy of a complete embargo would be, therefore, to force more rapid adjustments to a pattern already being developed. Although the reduction in imports resulting from the embargo probably would retard the planned expansion of Chinese Communist industry, principally with regard to planned increases in the

TOP SECRET

production of consumers' goods, these losses in output would in part be offset by the increased availability for domestic consumption of some commodities that formerly were exported to the West. The loss of foreign flag shipping for domestic coastal services would reduce coastal shipping capacity. However, Chinese Communist shipping, which now carries the bulk of this trade, and the North-South rail lines could absorb the load now handled by foreign flag ships. Finally, with imports and production of some consumer goods reduced and non-Communist markets virtually eliminated, the government would be confronted with a sizable loss of revenue. These losses, however, would be minor in relation to the total national income and to total Chinese Communist budgetary expenditures.

37. Military effects. A total embargo would probably have no significant effect on the capabilities of the Chinese Communists to sustain military operations in Korea and very limited effects on their capabilities to undertake military operations elsewhere.

38. Internal Political Effects. A total embargo would not appreciably affect the internal political strength of the Chinese Communist regime.

- 23 -

TOP SECRET

TOP SECRET

39. Burden on the Rest of the Bloc. A total embargo would not seriously increase the economic burden that Communist China currently imposes on the rest of the Soviet Bloc. However, the rest of the Soviet Bloc, to an even greater extent than before, would be exporting to Communist China many commodities that the Soviet Bloc normally imports for its own use. There would also be some difficulties arising from a trade deficit and an increase in transportation costs, but they would not assume serious proportions.

LONG-RUN EFFECTS

40. Economic Effects. The adverse economic effects of a complete embargo on Communist China would probably decrease rather than increase with the passage of time. The loss of cotton and other raw materials would be made up in large part through the development of domestic production or of domestically produced substitutes. Chinese Communist plans for the continued expansion of heavy industry would not be appreciably affected since such plans even now are dependent almost wholly on imports of capital goods from the Soviet Bloc and on increased domestic production of capital goods. However, greater emphasis probably would be placed on the expansion of rail transport links with the Soviet

TOP SECRET

Union at some expense to other aspects of the development program. Finally, in view of current estimates of the rates of growth of the gross national products of the USSR and European Satellites, the ability of the Soviet Bloc to provide capital goods and to bear the costs of providing such goods will increase significantly over the next 2-5 years.

41. The capacity and efficiency of the Chinese Communist railway system have apparently improved to the point where it could handle any additional burden which might be imposed by a total embargo. The planned extension of Chinese Communist railway lines and the possible increased load under conditions of an embargo would require additional equipment and supplies. This would place some burden on the Soviet Bloc, whether it sought to supply the necessary rails, locomotives, and freight cars itself, or attempted to restore Manchurian capacity for rolling steel rails and to expand the production of freight cars and locomotives in China. However, it is probable that the USSR would be able to supply minimum Chinese Communist requirements without serious repercussions in other portions of the Soviet Bloc economy.

42. Military Effects. Over a longer period, a total embargo would not reduce present Chinese Communist military capabilities but it might hinder an expansion of those capabilities.

TOP SECRET

43. Internal Political Effects. Over a longer period, the embargo would probably not significantly reduce the effectiveness of the regime's control over the Chinese people.

44. Effect on Sino-Soviet Relations. A total embargo would tend to increase the possibilities of Sino-Soviet friction. Should the Soviet Union be unwilling to continue to supply Communist China's essential requirements indefinitely, the adverse effect of the embargo on Communist China would be increased. Even under the projected level of Soviet exports to Communist China, the Chinese Communists might feel that their needs should be given higher priority. On the other hand, Communist China's complete military and economic dependence on the Soviet Bloc would result in a progressive integration of Communist China's economic and military planning with over-all Bloc planning and development and thus tend to reduce Chinese Communist capabilities to disagree with the USSR.

- 26 -

TOP SECRET

TOP SECRET

PROBABLE EFFECTIVENESS OF A NAVAL BLOCKADE IN INCREASING THE
PRESSURE ON COMMUNIST CHINA

Including Port Arthur and Dairen

45. Effect on Chinese Communist Trade. Whereas an embargo would operate only against non-Communist trade and shipping, a naval blockade would interdict smuggling and Soviet Bloc seaborne shipments as well, thus restricting Communist China's imports to those which could be brought overland from the European Soviet Bloc.* However, Communist China could obtain some essential Western items overland from the Bloc. On the basis of our tentative projection of Communist China's imports under present controls, a naval blockade would cut off 700,000 tons of seaborne imports from non-Communist countries, both legitimate and smuggled, plus 700,000 tons seaborne imports from Soviet Bloc sources, or a total of 1.4

* If Communist shipping attempted to run the blockade under naval escort -- a possibility discussed in Paragraph 67 -- achievement of the interdiction effect estimated here would obviously depend on the willingness of the US and other blockading powers to risk an open clash.

TOP SECRET

TOP SECRET

million tons valued at \$490 million. Likewise, the blockade would stop Communist China's seaborne export trade, estimated in 1952 to have been about 2.5 million tons, of which 1.7 million tons were exported to non-Communist countries and .8 million tons to the Soviet Bloc.

46. A naval blockade would also presumably operate against Communist China's coastal trade. Although a blockade would not be effective against local inshore coastal shipping, it would virtually eliminate Communist China's ocean-going coastal traffic which is estimated to be 9,100 tons of cargo per day or 3.3 million tons per year. The most important components of this traffic are the movements of coal, POL, and manufactured goods between Dairen, North China, and Shanghai, the movement of soybean cake from Dairen to South China, and the exchange trade of manufactures for food-stuffs between Shanghai and South China.

47. A naval blockade would cut off Chinese Communist total seaborne imports, which amount to 1.4 million tons per year. The amount by which Communist China's total imports would be reduced thereby would depend primarily on the extent to which the Soviet

TOP SECRET

TOP SECRET

Bloc increased its present level of exports to Communist China. Secondly, the amount by which total imports were reduced would depend on the capacities of the Trans-Siberian railway and the capacity of Communist China's inland transportation facilities.

48. Soviet Bloc Exports to Communist China. Although the Soviet Bloc would probably provide Communist China's essential import requirements, the Bloc probably would not replace all of Communist China's imports lost because of a blockade. Of the projected 1953 seaborne import tonnage of 1.4 million tons, about one-third consists of controlled commodities that Communist China can now secure only from the Bloc, such as petroleum, metals, and machinery, while two-thirds consist of commodities currently imported from non-Bloc countries. It is roughly estimated that the Soviet Bloc would continue to supply all of the controlled commodities but only about one-third of the other commodities, or a total of about 800,000 tons. Of the non-controlled materials, the Soviet Bloc would replace in part Communist China's imports of rubber, industrial chemicals, and drugs but would replace little or none of the imports of raw cotton, ammonium sulfate, paper, sugar, and gunny bags. On this basis, the total of Communist China's imports over the Trans-Siberian railway primarily from the East would

- 29 -

TOP SECRET

TOP SECRET

probably be on the order of 4.2 million tons per year compared with the present 3.4 million tons. Communist China would probably be able to increase its exports to the Soviet Bloc sufficiently to avoid any significant increase in its trade deficit with the Bloc.

49. Capacity of the Trans-Siberian Railroad. Overland Soviet imports to Communist China in 1952 were estimated to total 3.4 million tons (9,300 tons per day), the bulk of which came eastward over the Trans-Siberian Railroad. We believe that the Trans-Siberian Railroad has the capacity to carry the total projected seaborne imports (1.4 million tons per year or 3,900 per day) plus the minimum needs of the Soviet Far East. In this event, however, the cost to the Soviet Bloc of supplying these commodities would be substantially increased. The movement of this tonnage could be accomplished by: (a) a diversion of additional rolling stock from other rail lines in the Soviet Union; (b) a reduction in the peacetime volume of commodities moving to the Soviet Far East; and/or (c) movement of freight by sea to Vladivostok to be on-carried to connecting Manchurian railways.

50. Capacity of Communist Chinese Inland Transportation Facilities. The additional burden imposed by a blockade would add approximately 3.8 percent to the total volume of freight currently carried by the railroads of Communist China. It is estimated that because of the long

TOP SECRET

average haul involved, the transportation overland of the freight cut off by a blockade would require about 10 percent of the freight car park and about 8 percent of the locomotive park. We believe the Chinese Communist railroads have the capacity to carry this additional freight, but at the expense of planned increases in freight haulage. In order to reduce this loss, the Soviet Bloc could, within about six months, make available to Communist China a considerable amount of standard gauge rolling stock of which the Soviet Bloc now has an excess.

51. Since the actual additional burden on both the Trans-Siberian Railroad and the internal transportation system of Communist China would not approach their maximum, we believe the reliance on overland transportation facilities would not limit the extent to which Communist China's seaborne imports could be replaced. Moreover, it should be pointed out that it would be possible for the USSR to ship goods to China by sea to Vladivostok and thence by rail to China.

52. Economic Effects. A naval blockade would have a greater effect on the Chinese Communist economy than would an embargo. The planned economic growth would be seriously retarded, additional strains would be placed on internal transport, and further gains from trade and further budgetary revenues would be lost. Rail lines do not serve some of the areas now served by coastal shipping. In these areas

TOP SECRET

particularly South China, a reversion to more primitive means of transport would result. The reduction in imports of fertilizer and industrial chemicals would adversely affect plans to increase output of industrial crops and some consumers' goods. The sum of these losses would, however, be small in relation to Communist China's total national income or total budgetary expenditures.

53. Political Effects. Internal controls, already strong in Communist China, could prevent any serious increase in overt political opposition to the regime. However, the administrative burden of these controls would increase. On the other hand, a blockade would provide the regime with a plausible excuse for its failures and a new propaganda theme to mobilize popular support for its policies. The net political effect within Communist China of a blockade would probably not be significant.

54. Military Effects. A naval blockade would not directly affect the movement of military supplies from the USSR, most of which are being brought in by overland routes. Nevertheless, the denial of sea-borne imports and of coastal shipping facilities would probably impose some curbs on the importation and internal distribution of military supplies because of congestion of land routes. Meanwhile, the impact

- 32 -

TOP SECRET

TOP SECRET

of a naval blockade on the economy as a whole would reduce the totality of domestic resources which could be mobilized in support of the war effort. The reduction in Chinese Communist military capabilities would not be great enough to force a reduction of the Chinese Communist military commitment in Korea. It would, however, make more difficult offensive operations requiring large expenditures of materiel, either in Korea or elsewhere.

55. Effect on Sino-Soviet Relations. A naval blockade would tend to increase the possibilities of Sino-Soviet friction to a greater extent than would an embargo. Although Soviet exports to Communist China would be reduced under a blockade, as compared with an embargo, the cost of providing these commodities, because of transport difficulties, would be greater and the possibility of obtaining increased imports from Communist China would be less. On the other hand, a blockade would decrease Communist China's capabilities for independent action as a consequence of the increased dependence upon the Soviet Bloc for economic and military support.

- 33 -

TOP SECRET

TOP SECRET

EXCLUDING PORT ARTHUR, DAIREN, HONG KONG, AND MACAU

56. A naval blockade would almost certainly be ineffective if Dairen and Port Arthur were excluded. These ports together are believed capable of handling about 45,000 tons a day, or many times the estimated total daily seaborne imports of all of Communist China at present. The readjustment of internal distribution necessitated by the blockade of all other seaports would impose additional strains on the Chinese Communist railway system but these strains would probably not be critical.*

57. A naval blockade would almost certainly be ineffective unless measures were taken to prevent trade with Communist China through Hong Kong and Macau. These ports, together with their road and rail connections with Communist China, could handle a large part of the projected seaborne imports of Communist China. The readjustment of internal distribution necessitated by a blockade of all other seaports would impose additional strains on the Chinese Communist railway system but these strains would probably not be critical.

* See Paragraph 50.

TOP SECRET

TOP SECRET

PROBABLE EFFECTS OF BOMBARDMENT OF LINES OF COMMUNICATIONS IN
CONJUNCTION WITH THE BLOCKADE

Vulnerable Elements of the Chinese Communications System

58. Communist China is heavily dependent on certain critical rail and inland waterways facilities for the execution of military movements and the maintenance of the industrialized and cash crop sector of its economy. This dependence is less within Manchuria, where the existence of a well-integrated and fairly diversified rail net and of a number of good highways and waterways provides some flexibility in transportation arrangements, and at the other extreme, in vast areas of rural China, notably in the West, which have such poor communications with the outside world as perforce to remain largely self-sufficient. In general, however, the maintenance of the present level of Chinese Communist military and economic activities depends on continued availability of a heavily utilized rail and water network which contains a number of bottlenecks and lacks a supplementary road system capable of carrying heavy traffic on an all-weather basis. These bottlenecks, all within bombing range of US land and carrier-based aircraft, provide some 200 rail targets for bombing and some 26 water targets for aerial mining.

- 35 -

TOP SECRET

TOP SECRET

59. These potential targets can be divided into five general categories, as follows:*

(a) Rail and water links with the Trans-Siberian Railway.

At present there are only three routes by which heavy overland shipments from the USSR can be brought into Communist China and over which Communist Chinese shipments can move to the USSR: (1) the rail line from Man-chou-li on the Western border; (2) the rail line from Sui-fen-ho on the east to the rail net around Harbin in central Manchuria; and (3) the Sungari River, which links Harbin with a Trans-Siberian railway on Manchuria's northern border. An additional rail line is in operation from the Trans-Siberian Railway near Vladivostok in North Korea, where it joins the Korean rail net, which in turn has a connection at Tu-Men with the Manchurian rail system. In the event of a naval blockade of the China coast, these already important routes would obviously be of critical significance. No alternate

* See attached map.

TOP SECRET

TOP SECRET

rail routing is possible over the first 400 miles from Man-chou-li to Harbin, while the first junction point on the Sui-fen-ho-Harbin line is 50 miles from the border.

- (b) The rail link between Dairen and Port Arthur and central Manchuria. The rail line linking Port Arthur and Dairen with Mukden and Harbin would be of critical importance in the event that a naval blockade was established excluding these ports. Although a supplementary road system is available, this road system accounts for less than a quarter of a haulage capacity out of these two ports, all of which would be required to compensate for the blockade of other Chinese seaports. No alternate rail routes are available for the first 150 miles from the terminus at Port Arthur.
- (c) The rail link between Manchuria and North China. Nearly all rail traffic between Manchuria and the rest of China must travel over a 275-mile stretch of coastal trackage between Chin-chou and Tientsin.

TOP SECRET

TOP SECRET

Effective interdiction of this route would sever the main transportation link between Manchuria and the rest of China.

(d) The Chu-chow-Heng-yang rail link in South China.

All rail traffic into south China from the rest of the country must pass over a 75-mile stretch of railroad between Chu-chow and Heng-yang. Effective interdiction of this stretch would not only sever the major inland transport route between Canton and central and northern China, but would also cut the only rail line which would permit the movement of supplies from north and central China in support of the Viet Minh forces in Indochina.

(e) Rail and water targets in central China. There are a number of important rail and water transport targets in central China. A 70-mile stretch of trackage between Ta-ksien and Chinan, including an important rail bridge over the Yellow River,

TOP SECRET

target system would have an extremely serious effect on Communist China military and economic potential. It is probable that a prolonged disruption of the main surface routes in Manchuria leading from the USSR would critically reduce Chinese Communist offensive capabilities in Korea and seriously reduce their defensive capabilities in Korea. Some supplies could be sent from the USSR directly into North Korea by means of the important alternate route from the Soviet Maritime Province into Northeast Korea at Hongui. However, effective and sustained interdiction of all bridge crossings over the Yalu and Tumen rivers, in conjunction with interdiction of transportation facilities in Manchuria and China, would impose a severe strain upon Communist logistic capabilities in Korea to the point where their offensive capabilities would be severely curtailed, if not eliminated. Interdiction of the key Chu-chou-Heng-yang rail link into south China would gravely handicap Communist military operations in Southeast Asia. Effective, sustained attacks on the vital rail link between Manchuria and China proper, coupled with attacks on selected targets within Central China would put severe pressures on the Chinese economy. There are indications that the Mukden-Shanhaikuan line has been supplemented by the restitution of the Chinghsien-Kupeikou line, creating a double link between China and Manchuria. Taken together, effective and

- 40 -

TOP SECRET

TOP SECRET

sustained interdiction of all these routes would progressively undermine Communist China to a point where its military capabilities would be critically reduced and the difficulties of maintaining the regime's economic and political controls would be increased.

CHINESE NATIONALIST CAPABILITIES TO BLOCKADE THE CHINA COAST AND TO CONDUCT AIR STRIKES AGAINST LINES OF COMMUNICATIONS ON THE CHINA MAINLAND

A. NATIONALIST CAPABILITIES

61. Blockade. The Chinese Nationalist Navy currently has a total of 38 sea-going vessels suitable for blockading operations. In addition, there are more than 100 smaller types that could be used in blockading a coastal area within a range of 400 miles of Taiwan. The Nationalist Navy now possesses a low combat capability because of poor staff planning, poor maintenance of vessels and equipment, and serious deficiencies in communications, surface-firing, A-firing, and radar and sonar detection.

62. At present, the Nationalist Navy, supported by aerial surveillance, air cover, and aerial mining of Chinese Communist ports by the Chinese Nationalist Air Force (CNAF), probably has

- 41 -

TOP SECRET

TOP SECRET

the capability to intercept about 20 percent of all sea-going trade,* even if no Chinese Communist naval or air resistance were offered. If the Chinese Communist Navy offered resistance to a Nationalist blockade, the Nationalist Navy would be forced to withdraw from the Yangtze River area to a point south of Ningpo, thus drastically reducing the Nationalist Navy's blockade effectiveness. If the Communist Air Force in China were committed to nullifying the blockade, the Nationalist Navy would probably be unable to maintain even a blockade of the Formosa straits.

63. The total effects of a Chinese Nationalist blockade on Communist China's seaborne foreign trade might be considerably greater, initially at least, than suggested by their capabilities listed above. Charter and insurance rates would rise and non-Communist ship owners would be unlikely to charter their ships for trade with the blockaded ports. So long as the blockading effort demonstrated its effectiveness, therefore, the Chinese Communists would suffer both a reduction in ships available to carry their foreign trade and an increase in shipping costs.

* If the Chinese Nationalists devoted all efforts toward maintaining a blockade and stationed and operated their forces in such a manner as to (a) blockade nine mainland ports capable of handling vessels of 1,000 GRT or larger in the area between the Pearl River and the Yangtze River, and (b) interdict coastal traffic in the area between Hong Kong and Hangchow, it is estimated that they could intercept about 45 percent of seagoing traffic. It is not believed, however, that the Chinese now possess the necessary efficiency in planning and operations to accomplish this result.

TOP SECRET

TOP SECRET

64. Air Strikes. The Chinese Nationalist Air Force (CNAF) currently has a total of 167 combat aircraft (70 F-47 fighters; 56 F-51 fighters; 21 B-25 light bombers; and 20 B-24 medium bombers). The CNAF has a low combat capability because it lacks jet aircraft, has shortages of spare parts, equipment, and supplies, including POL, and has had limited operational experience and training.

65. If its total combat air strength were committed to air strikes against the mainland, the CNAF initially could inflict some damage on Chinese Communist rail lines and other LOC's in East China.* However, because of CNAF logistic and maintenance deficiencies and Chinese Communist capability for counter-air operations, CNAF air attacks against the mainland would be limited in duration and effectiveness.

* Shanghai, Canton, and the entire rail system between these cities, including the vital Chu-chow-Hong-ying rail link, is within the range of all CNAF combat aircraft.

TOP SECRET

TOP SECRET

PROBABLE COMMUNIST REACTION TO THE IMPLEMENTATION OF THESE MEASURES

A. COMPLETE EMBARGO

66. A complete embargo on non-Communist trade with Communist China would have no significant effect on Communist China's military capabilities and only limited effects on its civilian economy. The Communists would probably launch an intense campaign of political and economic warfare designed to weaken the unity and resolution of the embargoing powers. This campaign would probably stop short of new identifiable aggression, but might include (a) efforts to precipitate strikes and internal disorder within the territories of the embargoing powers, and (b) increased military pressure on the borders of Hong Kong, Macau, Indochina, and possibly Burma.

B. NAVAL BLOCKADE

67. Imposition of a blockade would increase the difficulty of military operations requiring large expenditures of materiel, either in Korea or elsewhere, but the blockade in itself would probably not induce the Communists to accept a Korean settlement on UN terms. Communist reaction to a naval blockade would almost certainly include an intense campaign of political warfare that would probably include any or all of the measures noted above in the case of an embargo. In

- 44 -

TOP SECRET

TOP SECRET

addition, Communist China would almost certainly commit its air and naval forces against the blockading forces with covert Soviet assistance and might launch attacks against Hong Kong and/or Macau, particularly if these territories were in any way assisting the blockading powers. For its part, the USSR would probably test the blockade, possibly with the armed escort of merchant ships.* We believe it unlikely that the USSR would regard incidents connected with the stopping of such ships as a casus belli, but the USSR would exploit such incidents to create dissension among the non-Communist powers.

68. Effective and sustained air and naval bombardment of key Chinese Communist transportation lines, in conjunction with a naval blockade, would sharply reduce Chinese Communist military capabilities, but would probably not in itself induce the Communists to accept a Korean settlement on UN terms. Communist China's economic potential would be seriously affected, and the problems of the regime in maintaining political control would be increased. In reaction to a blockade and bombardment, the Chinese Communists would make a maximum air defense effort in China and Manchuria. Units of the Soviet Air

* Possible ONI reservation.

- 45 -

TOP SECRET

Force in the Far East would covertly participate in the air defense effort, particularly in Manchuria. The Chinese Communists would probably also employ their air capability against some US/UN bases in the Far East. If the blockade and bombardment should threaten the existence of the Communist Chinese regime, the USSR would increase its aid to Communist China, probably even to the point of openly committing Soviet forces over US/UN held territory and adjacent waters in the Far East.*

D. CHINESE NATIONALIST BLOCKADE AND BOMBARDMENT

69. Communist China would almost certainly react to a Chinese Nationalist blockade effort by committing its air and naval forces against Chinese Nationalist blockading forces, and might launch air strikes against naval and air installations of Nationalist China. The Communist Chinese would probably react to a Chinese Nationalist effort to bombard lines of communications by strengthening their air defenses in East China and might retaliate by air action against territory held by Nationalist China.

* Possible OIR reservation on additional sentence.

- 46 -

TOP SECRET